April 13, 2015

Comments: Community Development and Infrastructure
Senate Finance Committee
Dirksen Senate Office Building
Washington, DC 20510

Airports Council International – North America (ACI-NA) represents local, regional and state governing bodies that own and operate commercial airports in the United States and Canada. Over 380 aviation-related businesses are also members of ACI-NA, providing goods and services to airports. ACI-NA's members enplane more than 95 percent of the domestic and virtually all the international airline passenger and cargo traffic in North America. ACI-NA's mission is to advocate policies and provide services that strengthen the ability of commercial airports to serve their passengers, customers and communities.

As the Senate Finance Committee considers tax reform, there are a variety of issues that impact the ability of airports to finance projects to enhance safety, security and capacity through municipal bonds. ACI-NA asks that the Committee strongly consider retaining the tax exemption for municipal bonds while also eliminating the tax burden of the Alternative Minimum Tax (AMT) on private activity bonds (PABs).

Airports have extremely complicated financing structures, but are increasingly relying on bonds as a means of enabling necessary improvements to modernize existing infrastructure or to expand to meet projected demand. The example from Dallas-Fort Worth International Airport described below details how many airports typically use different types of municipal bonds to maintain global competitiveness and meet the needs of the local communities they serve.

In addition, airport projects have been burdened with higher costs because of the AMT penalty placed on PABs. In order to highlight how removing this tax penalty on airport PABs would lower the construction costs for communities across the country, we have provided information below about the AMT penalty as well as market-based information about the benefit of removing the penalty that were realized during 2009 and 2010 when PABs were exempt from the AMT.

MUNICIPAL BOND MARKET – A CRITICAL FINANCING SOURCE FOR AIRPORT CAPITAL PROJECTS

Airport capital needs are estimated to exceed $75.7 billion for 2015 through 2019, or approximately $15.1 billion per year, according to the 2015 Airport Capital Development Needs Survey conducted by ACI-NA. The Airport Improvement Program (AIP) administered by FAA currently distributes about $3.35 billion entitlement and discretionary grants to airports, leaving a gap of about $11.75 billion per year to be funded with local sources.

AIRPORTS IN THE MUNICIPAL BOND MARKET

Airport operators are major and regular participants in the municipal bond markets and have utilized numerous types of municipal bonds to finance airport capital projects including:

(a) general obligation bonds supported by the overall tax base of the issuing entity (the airport sponsor),
(b) general airport revenue bonds secured by the revenues of the airport and other revenues as defined in the bond indenture,

(c) bonds either backed solely by Passenger Facility Charge (PFC) revenues or by PFC revenues and airport revenues generated by rentals, fees and charges, and
(d) special facility bonds backed solely by revenues from a facility constructed with proceeds of those bonds.

Depending on the nature of the projects being financed by the airport, most bonds are considered a special form of municipal bonds called private activity bonds (PABs). Often times, PABs are subject to the Alternative Minimum Tax, thereby raising the return demanded by the investor and the financing costs for the airport.

AIRPORT MUNICIPAL BONDS: LOWER COSTS, BETTER SERVICE, NECESSARY FOR LOCAL COMMUNITIES

Airports are carefully managing operating, financing and capital expenses to maintain their good credit rating which helps lower their borrowing costs. Airport operators constantly monitor the financial markets and respond to changes in market conditions accordingly. For example, bond issuance spiked in 2010 driven by low interest rates and the Alternative Minimum Tax holiday. Lower borrowing costs through municipal bonds allow airports to pass the savings to airlines through lower rates and charges, which help sustain existing and attract new air carrier service, ultimately benefiting passengers with more service choices. Air service also helps generate jobs and economic development in the community.

Private Activity Bonds have come under great scrutiny by academics and policy makers alike. Access to the municipal bond market for airport projects is absolutely vital for the future of a modern aviation system. If significant changes were made to either the current structure of municipal bonds or PABs that resulted in higher borrowing costs or the outright inability to issue municipal debt for airport projects, the modernization efforts at airports across the country would come to a screeching halt. As discussed below, airports have felt the impacts of the fluctuations in the credit market and are sensitive to them. It's important to understand that negative impacts on municipal bonds or PFCs will certainly impact air service options in local communities. Airports encourage policy makers to look at options that lower the cost of municipal debt, including eliminating the Alternative Minimum Tax on PABs.

ALTERNATIVE MINIMUM TAX ON AIRPORT BONDS

THE ISSUE

Airports play a vital role in the economy of the United States, providing for the efficient movement of people and goods to both domestic and international destinations. In order to ensure this critical flow of commerce is not encumbered by delays or outdated facilities, airports need to finance bonds to fund planned airside enhancements and landside capacity projects especially since more than half of all construction projects at airports are financed by bonds.

However, the sub-prime mortgage collapse and resultant credit crisis in 2008 caused serious problems for airports and other municipal borrowers resulting in the cost of auction and variable rate debt to spike to levels never seen before. At the time, it was virtually impossible to finance new projects and many existing airport projects were threatened due to lack of ongoing financing.

The challenging market for airport bonds was made even more difficult by the fact that since 1986, the majority of bonds issued by airports are classified as private activity bonds (PABs), interest payments on which are subject to the Alternative Minimum Tax (AMT). This resulted in investors demanding an interest rate premium to compensate for the additional tax liability. This discrimination hampered airports' ability to implement essential capacity, safety, and security projects.

SUCCESS OF THE AMT EXEMPTION

In 2009 and 2010, PABs were exempted from the AMT. During that time, the airport industry sold an unprecedented $12.7 billion in PABs that were exempt from the AMT allowing construction to continue and jobs to be created at airports across the country. This provision ultimately led to the airport industry and local communities saving over $1.8 billion in financing costs. The success of this short-term exemption resulted in the Future of Aviation Advisory Committee (FAAC) recommending to the Secretary of Transportation that the department support an additional AMT exemption for PABs.

AIRPORTS NEED PERMANENT RELIEF

In order to ensure that airports have *continued* access to the bond market, which allows communities to maintain this vital economic asset, Congress must make the AMT exemption on PABs permanent. We encourage Congress to provide the same permanent assistance to airports and the rest of the PAB issuers as it provided to the housing industry in July 2008 in H.R. 3221, the Housing and Economic Recovery Act of 2008. Effective August 2008, housing bonds are a special class of non-AMT bonds, where the interest is not subject to the AMT. Airports require similar permanent relief in order to ensure that the market for PABs remains robust, while also ensuring lower project costs.

Dallas-Fort Worth International Airport (DFW) has embarked on a $2.7 billion Terminal Renewal and Improvement Program (TRIP) to renovate and update DFW's four older terminals which are 35 to 40 years old. As of now, the airport has issued approximately $1.8 billion of bonds subject to the AMT. The penalty caused DFW to have to issue an additional $84 million in bonds and will cost the airport $207 million in incremental debt service. DFW is controlled by the cities of Dallas and Fort-Worth, Texas and the AMT penalty on these PABs reduces the airports' capacity to fund necessary projects and increases the cost of operation for airlines serving the community, with deleterious impacts on the airports' global competitiveness.

ESTIMATED BUDGET COST

According to the most recent estimate of the Joint Committee on Taxation, the elimination of the AMT on all PABs-- including those that fund airports, student loans, hospitals, and sea ports--would cost the federal government on average $49 million per year for fiscal years 2013-2017. The economic activity that would be created from issuing AMT exempt PABs for airports alone would be in the tens of billions for the same time period, while the savings for airports could reach the hundreds of millions.

Thank you for consideration of our requests. Please feel free to let us know if you have any questions.

Sincerely,

Kevin M. Burke

Kevin M. Burke
President and CEO
Airports Council International-North America